

B O A R D O F S T U D I E S
NEW SOUTH WALES

2010 HSC Economics Sample Answers

This document contains ‘sample answers’, or, in the case of some questions, ‘answers could include’. These are developed by the examination committee for two purposes. The committee does this:

- (a) as part of the development of the examination paper to ensure the questions will effectively assess students’ knowledge and skills, and
- (b) in order to provide some advice to the Supervisor of Marking about the nature and scope of the responses expected of students.

The ‘sample answers’ or similar advice are not intended to be exemplary or even complete answers or responses. As they are part of the examination committee’s ‘working document’, they may contain typographical errors, omissions, or only some of the possible correct answers.

Section II

Question 21 (a)

Sample answer:

80.0, the terms of trade has increased from Year 2 to Year 3.

Answers could include:

- Improvement
- Year 2 – 80.0, Year 3 – 82.7/82.8

Question 21 (b)

Sample answer:

Australia's exports in services, such as education, finance, tourism, communication and insurance has increased in the last two decades as Australia has a greater comparative advantage in producing these service exports. One reason for this is the growth of tourism as well as the rapid growth of Asia, who source Australia for education and finance services.

Answers could include:

- Global convergence
- Increase in world living standards
- Increase in technology and communication
- Deregulation of world economies
- Globalisation
- International competitiveness

Question 21 (c)

Sample answer:

Australian imports have increased from Asian economies. This growth is due to increasing economic development of these nations and their ability to produce capital, intermediate and consumer goods at a lower cost than Australia. In addition, there has been increasing trade liberalisation in this region which has increased trade flows.

Answers could include:

- Closer economic ties
- Decreased cost of imports
- Exchange rates
- Reduction in protection

Question 21 (d)***Sample answer:***

Australia has historically had low levels of domestic savings, which were insufficient to fund the capital investment that Australia needed for economic growth. As a result, Australia has become reliant on foreign capital to supplement this shortage, looking to countries with surplus capital to invest. This has become easier since the deregulation of global financial markets, allowing foreigners easier access to our market with less restrictions on their investment. This has encouraged both direct and portfolio investment.

Answers could include:

- Globalisation/integration
- Speculative investment
- Increased portfolio investment
- Trade agreements

Question 22 (a)***Sample answer:***

A newly industrialised country is one that has progressed from a developing economy to a higher income economy, experiencing rapid economic growth. The transition economies have progressed from socialist economies to market economies experiencing economic and legal reforms.

Answers could include:

- | | |
|---|---|
| • Quality of life (HDI) | • Market forces |
| • High levels of real per capita income | • Central planning |
| • Levels of investment/infrastructure | • Price mechanism |
| • GDP | • Financial and business market reforms |

Question 22 (b)***Sample answer:***

The world economy is experiencing international convergence, which means that economies are becoming more similar in their economic systems, adopting market capitalism. This is a result of the globalisation process, such as the internationalisation of the labour force, the dominance of TNCs on production process, the spread of telecommunications and the internet and the growth of international trade and investment. Barriers between nations have been eroded through the liberalisation of trade and the deregulation of financial markets.

Answers could include:

- | | |
|--------------------------------|-------------------------------|
| • International business cycle | • Political and legal changes |
| • GWP | • Washington consensus |
| • Globalisation process | • Reduction of protectionism |

Question 22 (c)***Sample answer:***

China is an economy that has undergone the globalisation process, which has facilitated its rapid economic growth and human development. One of the main reasons why this has occurred has been the rapid adoption of an open door policy towards foreign trade and investment.

Trade has been liberalised in China as a result of tariff cuts of 32% in 1996 to 15% in the year 2000. This attracted foreign investment and opened China's financial markets to international funds.

Most of these funds have been broadly based across primary, secondary and tertiary industries. This has facilitated the development of their infrastructure as well as improving some aspects of environmental management.

China has a huge current account surplus as a result of fast export expansion, particularly in electrical machinery and equipment as well as consumer durables. Low labour costs have facilitated this, as well as direct and portfolio investment from TNCs. Foreign companies have been encouraged to settle in China and these companies are export driven. Some of these companies are joint ventures, resulting in China developing its infrastructure which further enhances its ability to be internationally competitive. The value of China's exports (trade) has grown by 30% per annum over the last five years, and FDI now totals over \$US78 billion.

In addition, China was admitted to the WTO in 2001 and has signed many bilateral agreements which have diversified her export base to include more value added ETMs.

Answers could include:

- Legal and political reforms
- High savings ratio
- Reforms in the banking system
- Special economic zones
- Economic growth rates
- Increase in urbanisation
- Development of middle class

Question 23 (a) (i)***Sample answer:***

Unemployment ↑ by 5%

Answers could include:

Yr1: 15%, Yr2: 20%, 33.3%

Question 23 (a) (ii)***Sample answer:***

The unemployment rate has increased from Yr1 to Yr2 because the labour force participation rate has increased.

Answers could include:

- Labour force participation rate (Yr1) = 60% and labour force participation rate (Yr2) = 68%

Question 23 (b)***Sample answer:***

Long-term unemployment is a constraint on economic growth. The long-term unemployed lose their skills, making it harder for them to re-enter the labour force when the economy improves. The long-term unemployed also place a fiscal burden on government who must increase expenditure on unemployment benefits. A large number of social costs also arise from long-term unemployment, including income and wealth inequality and increased levels of crime.

Answers could include:

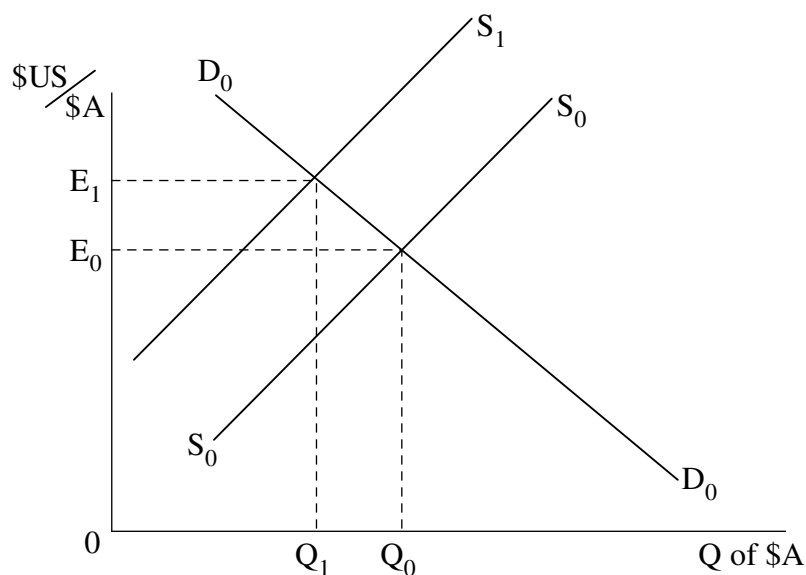
- Loss of labour skills
- Economic cost
- Opportunity cost
- Poverty traps
- Loss of profit
- Lower aggregate demand
- Automatic stabilisers
- Taxation burden
- Self-esteem/depression/suicides
- Health burden

Question 23 (c)
Sample answer:

The labour force participation rate is defined as a percentage of people of working age who are actually in the labour force. Increased government expenditure on education and training programs, by building up the skills of the hidden unemployed, encourages people back into the labour force. More generally, expansionary fiscal policy can encourage the hidden unemployed to more actively seek work due to the increase in employment opportunities. Also, funding for policies that reduce job-search costs for the unemployed can raise the labour force participation rate; for example, the Job Search Allowance, and the creation of the Job Network. Taxation concessions for married women to enter the labour force can also be used to increase the labour force participation rate.

Answers could include:

- Microeconomic reform
- Labour market policy
- Job creation
- Productivity
- Structural change
- Australian Fair Pay Commission
- Budget deficits
- Vocation industry training
- Multi-skilling
- Anti-discrimination laws
- Legislative changes
- Taxation incentives

Question 24 (a)
Sample answer


Question 24 (b)***Sample answer:***

The Australian Dollar has depreciated relative to Country A's currency and appreciated relative to Country B's currency. One possible reason for this is that the demand for Australian exports has risen in Country B and fallen in Country A. Therefore, Country B demands more \$A which appreciates the currency and Country A demands less \$A which depreciates the currency.

Answers could include:

- Investment levels
- Import spending
- Speculation
- Expectations
- Terms of trade
- Protection levels
- Change in GWP
- Global financial crisis
- Political influences

Question 24 (c)***Sample answer:***

Loose Monetary Policy involves the RBA buying government securities, which results in a fall of the cash rate. As a result, foreign financial inflows decline into Australia since the rate of return on investments is now lower. The demand for \$A is now reduced and hence the exchange rate depreciates.

To the extent that lower interest rates lead to a depreciation of the \$A, Australian exports become more affordable to foreign buyers, while imports into Australia become more expensive. Thus, aggregate demand and economic activity increase with the rise in Net Exports.

Loose Monetary Policy also encourages greater economic growth by stimulating consumption and investment spending and discouraging saving. This is because the cost of borrowing has fallen. Moreover, the cost of servicing existing debts falls which allows consumers and businesses to redirect those funds into additional spending.

Answers could include:

- Price stability
- Domestic market operations
- Transmission mechanism
- Multiplier
- Cash rate
- Inflation rate
- Import and export prices
- International confidence
- Speculations
- GDP/real GDP
- Employment

Section III

Question 25

Answers could include:

- Price mechanism
- Market failure
- Externalities
- Spill-over effects
- Renewable/non-renewable resources
- Private and social costs
- Sustainability (ESD)
- Intergenerational equity
- Political constraints
- Cost and benefit analysis
- Public and private goods
- Free riders
- Fines, incentives
- Conflicting objectives
- Tradeable permits
- Pollution control
- Financial constraints
- Fiscal policy
- Copenhagen Conference
- Kyoto Protocol
- International influences
- Treaties
- Stern Report
- Economic growth
- Employment
- Desalination plant
- Inflation
- External stability
- Income distribution
- Structural change

Question 26

Answers could include:

- Fiscal policy
- Structural change
- Lorenz curve
- Gini coefficient
- Incentive effect
- Labour productivity
- Welfare payments
- Factor incomes
- Flow and stock
- Consumption levels
- Taxation revenue
- Taxation burden
- Gender
- Disabled
- Migrants
- Youth
- Aged
- Indigenous policies
- Budget deficit
- Safety net
- Social division
- Long-term unemployed
- Relative/absolute poverty
- Underclass
- Economic growth
- Poverty trap
- Deskilling
- Taxation – Progressive
- Fringe benefits
- Tax thresholds
- Capital gains tax
- Training and development
- Means testing
- Social wage
- Monetary policy
- Microeconomic reform
- Conspicuous consumption

Section IV

Question 27

Answers could include:

- Growth in foreign borrowings
- Higher public sector borrowings
- High inflation
- International competitiveness
- Terms of trade
- Protectionism, tariffs, subsidies
- Global economy
- Global financial crisis
- Exchange rates
- Foreign debt
- Domestic factors (drought)
- Increasing CAD
- Equity and debt financing
- Domestic savings
- Marginal propensity to save
- Budget deficits
- Net income
- Balance of payments
- Capital account
- Monetary policy
- Twin deficit argument
- Quality of life
- Foreign liabilities
- Composition and direction of trade
- International business cycle
- APEC, IMF, WTO
- Bilateral and multilateral trade agreements
- Future growth
- Structural change
- Macroeconomic reform
- International confidence
- Credit rating
- Pitchford thesis

Question 28

Answers could include:

- Trading blocs and agreements
- Tariffs, subsidies, embargoes
- International competitiveness
- Structural change
- Free trade
- Common market
- WTO, EU, APEC, IMF
- Bilateral/multilateral
- TCF, PMV, CAP
- Economies of scale
- Investment
- Efficient allocation of resources
- Diversification
- Absolute and comparative advantage
- Economic growth
- Employment
- Inflation
- External stability
- Credit ratings
- Terms of trade
- Taxation revenue
- Producers' revenue
- Import levels
- Level playing field
- Retaliation effects